

GOLD CANYON SEWER COMPANY

DOCKET NO. SW-02519A-06-0015

SURREBUTTAL TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

AUGUST 30, 2006

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1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Rodney Lane Moore.

4

5 Q. Have you previously filed testimony regarding this docket?

6 A. Yes, I have. I filed direct testimony in this docket on June 16, 2006.

7

8 Q. What is the purpose of your surrebuttal testimony?

9 A. My surrebuttal testimony will address the Company's rebuttal comments
10 pertaining to adjustments I sponsored in my direct testimony.

11

12 **SUMMARY OF ADJUSTMENTS**

13 Q. What areas will you address in your surrebuttal testimony?

14 A. My surrebuttal testimony will address the following RUCO proposed
15 adjustments:

- 16 1. Rate Base Adjustment No. 1 – Deferred Income Tax;
- 17 2. Rate Base Adjustment No. 2 – Accumulated Amortization Of CIAC;
- 18 3. Rate Base Adjustment No. 3 – Allowance For Working Capital;
- 19 4. Rate Base Adjustment No. 4 – Accumulated Depreciation;
- 20 5. Rate Base Adjustment No. 5 – Disallowance Of Excess Capacity;
- 21 6. Operating Income Adjustment No. 1 – Depreciation Expense;
- 22 7. Operating Income Adjustment No. 2 – Property Tax Computation;
- 23 8. Operating Income Adjustment No. 3 – Rate Case Expense;

- 1 9. Operating Income Adjustment No. 10 – Inappropriate Expenses;
- 2 10. Operating Income Adjustment No. 13 - Income Tax Expense;
- 3 11. Cost Of Capital; and
- 4 12. Rate Design and Proof of Recommended Revenue.

5 To support the adjustments in my surrebuttal testimony, I prepared
6 thirteen Surrebuttal Schedules numbered SURR RLM-1 through SURR
7 RLM-10, and SURR RLM-13, SURR RLM-14 and SURR RLM-15, which
8 are filed concurrently in my surrebuttal testimony.

9

10 **RATE BASE**

11 **Rate Base Adjustment No. 1 – Deferred Income Taxes**

12 Q. Please explain your adjustment to deferred income taxes.

13 A. My adjustment accepts the Company's rebuttal adjustment for the
14 inclusion of deferred income tax in the instant case.

15

16 Therefore, I did not adjust the Company's rebuttal level of accumulated
17 deferred income taxes.

18

19 **Rate Base Adjustment No. 2 – Accumulated Amortization Of CIAC**

20 Q. Please explain your adjustment to the accumulated amortization of CIAC.

21 A. My adjustment corrects the Company's original calculation. I discovered
22 the Company workpapers for the CIAC amortization adjustment contained
23 erroneous formulae. After a discussion with the Company, an

1 understanding was reached to accept RUCO's surrebuttal adjustment to
2 the accumulated amortization of CIAC.

3
4 As shown on Schedule SURR RLM-2, column (D) this adjustment
5 decreases the total rate base by:
6 (\$6,576).

7

8 **Rate Base Adjustment No. 3 – Allowance For Working Capital**

9 Q. Please explain your adjustment to the allowance for working capital.

10 A. My adjustment consists of two elements. First, I reversed the Company's
11 rebuttal adjustment to eliminate issues between Gold Canyon and Staff by
12 reducing the allowance for working capital to zero; and the second
13 adjustment represents RUCO's surrebuttal level of operating expenses
14 that are reflected in the allowance.

15

16 Q. Please explain the first element of your adjustment to the allowance for
17 working capital.

18 A. Even though the Company states it does not agree with Staff's rationale,
19 to eliminate issues between Gold Canyon and Staff the Company reduced
20 the allowance for working capital to zero to accept Staff's adjustment.

21

22 However, RUCO believes its computation produces an amount of working
23 capital allowance that is reasonable.

1 Q. Please explain the second element of your adjustment to the allowance for
2 working capital.

3 A. This adjustment represents RUCO's recommended level of operations
4 and maintenance expenses which form the components of the allowance
5 for working capital.

6
7 Q. Please summarize your adjustment to the allowance for working capital.

8 A. As shown on Schedule SURR RLM-3, column (B) the two elements of this
9 adjustment increase the total rate base by:
10 \$119,398.

11

12 **Rate Base Adjustment No. 4 – Accumulated Depreciation Related To**
13 **Retired Plant**

14 Q Please explain your adjustment to the accumulated depreciation related to
15 the Company's rebuttal adjustment to plant retirements.

16 A. My adjustment corrects the Company's rebuttal calculation. I discovered
17 the Company workpapers for the accumulated depreciation adjustment
18 contained erroneous formulae. After a discussion with the Company, an
19 understanding was reached to accept RUCO's surrebuttal adjustment to
20 the accumulated depreciation.

21 As shown on Schedule SURR RLM-2, column (F) this adjustment
22 increases the total rate base by:

23 \$5,397.

Rate Base Adjustment No. 5 – Disallowance Of Excess Capacity

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to disallow excess capacity?

A. No. After a thorough analysis of the Company's rebuttal testimony, I determined that the Company misrepresented RUCO's position and presented information which is false, irrelevant and misleading.

Q. Please explain how the Company misrepresented RUCO's recommendation to disallow excess capacity.

A. The Company makes two erroneous statements in its rebuttal testimony to undermine RUCO's in-depth analysis and determination of the portion of excess capacity existing in the treatment facility. First, the Company misrepresents the basis for RUCO's determination of the percent of excess capacity; and second, the Company disputes the total costs associated with the wastewater plant expansion.

Q. Please explain how the Company misrepresents RUCO's analysis and recommended 28.05 percent of excess capacity.

A. The Company states that the underpinning of RUCO's recommendation is based on a 2005 year-end influent flow rate of 708,000 gpd. This is false. RUCO based its recommended 28.05 percent excess capacity, very conservatively, on the year-end 2008 projected flow rate as estimated by the Company.

1 I relied on the Company's response to RUCO data request 2.6 in making
2 my adjustment. That data was as follows:

3 2008 Projected Flow Rate (mgd)	1.367
4 Maximum Flow Rate (mgd)	1.900
5 2008 Projected Excess Capacity (mgd)	0.533
6 Percentage of 2008 Projected Flow To Maximum Flow	28.05%

7 Moreover, the Company further tries to denigrate RUCO and distance
8 itself from the information it provided in RUCO data request 2.6 by now
9 adopting the more aggressive estimates stated in Staff witness Mr. Scott's
10 direct testimony. However, in doing so, the Company distorts the
11 parameters by arbitrarily interchanging "peak flow" with "average monthly
12 flow rate" in an attempt to discredit RUCO's recommendation. The ADEQ
13 discharge permit, the engineer's plant capacity evaluation and the
14 expansion design specification all refer to "average monthly flow rate" as
15 the standard criteria for determining plant capacity. The actual 2005 year-
16 end average monthly flow rate was recorded at 889,857 gpd (as
17 compared to the Company's slightly lower estimate provided to RUCO of
18 708,000 gpd). Therefore, the Company's statement in its rebuttal
19 testimony that it can easily support 1.5 million gpd of capacity (based on
20 an actual peak test-year flow of 1.17 million gpd) as being utilized during
21 the test year is a false and ill conceived attempt to justify its position that
22 there is no excess capacity.

23 . . .

1 RUCO maintains that the Company's estimate of the 2008 year-end
2 average monthly flow rate is a reasonable criteria in determining the 28.05
3 percentage of excess capacity in Gold Canyon's wastewater treatment
4 facility.

5

6 Q. Please explain how the Company attempts to reduce the actual costs
7 associated with the treatment plant expansion project.

8 A. The Company states that the \$1.4 million of plant expansion costs
9 associated with odor and noise control have nothing to do with capacity
10 and therefore, should not be subject to RUCO's excess capacity
11 adjustment.

12

13 The premise that the odor and noise control costs are not associated with
14 the plant expansion is false. The \$1.4 million for odor and noise control
15 are embedded in the \$10.3 million total plant expansion costs. These
16 odor and noise controls are an integral part of the treatment facility and
17 are designed to adequately abate odor and noise at full capacity.

18

19 Therefore, for the reasons stated in my direct testimony, the existing
20 ratepayers should not be burdened with costs associated with 28.05
21 percent of the odor and noise control costs, since 28.05 percent of the
22 costs of these controls will not be used or useful until plant is fully utilized.

23 . . .

1 Q. Please summarize RUCO's surrebuttal position on the disallowance of
2 excess capacity for the wastewater treatment plant.

3 A. As shown on SURR RLM-5, RUCO recommends 28.05 percent of the net
4 costs of the wastewater treatment plant expansion be deemed excess
5 capacity and removed from rate base.

6 As shown on Schedule SURR RLM-2, column (G) this adjustment
7 decreases the total rate base by:
8 (\$2,789,016).

9

10 **OPERATING INCOME**

11 **Operating Income Adjustment No. 1 – Depreciation Expense**

12 Q. Please explain your adjustment to the test-year depreciation expense.

13 A. As shown on Schedule RLM-8, this adjustment reflects RUCO's end of
14 test year gross plant in service and calculates the depreciation expense
15 based on depreciation rates proposed by the Company and accepted by
16 RUCO. The entire adjustment is driven by the disallowance of excess
17 capacity in the treatment plant as explained previously in my testimony.

18

19 As shown on Schedule RLM-7, column (D), this adjustment decreases
20 adjusted test-year operating expenses by:
21 (\$126,723).

22 . . .

23 . . .

Operating Income Adjustment No. 2 – Property Taxes

Q. Please reiterate RUCO's position on the calculation of property taxes.

A. The evidence continues to show, despite the Commission's failure to recognize it, that the use of the ADOR formula to estimate property taxes is a much more accurate estimate of actual property tax than the methodology that the Company proposes and the Commission has historically adopted.

Regardless of the Company's rhetoric, Gold Canyon is requesting property tax expenses of \$255,139 to cover an actual 2005 property tax liability of \$143,662.58 (see Exhibit A) an over-collection of \$111,476. Moreover, this 2005 property tax bill was payable in two equal segments of \$71,831.29 due November 1, 2005 and May 1, 2006.

RUCO's estimated test-year property tax assessment is \$175,355, which is still \$31,692 greater than the 2005 actual expense. This evidence clearly demonstrates that ADOR's method more closely approximates the Company's actual post-test year property tax bill than does the Company and Staff methodology.

The Commission should adopt RUCO's approach and recognize the ADOR methodology as the best measure of estimating actual property tax expense.

1 With all due respect, the evidence has shown and continues to show, as in
2 this case, that the ADOR methodology is the most accurate. In this case, if
3 the Commission approves the Company's methodology, property taxes for
4 2005 will be overstated and allow the Company to over earn for several
5 years.

6
7 As shown on Schedule RLM-7, column (E), this adjustment decreases
8 adjusted test-year operating expenses by:
9 (\$79,784).

10
11 **Operating Income Adjustment No. 3 – Rate Case Expense**

12 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
13 adjustment to rate case expenses?

14 A. No. Even though the Company rejects RUCO's rate case expense level
15 for several reasons, there is no sufficiently compelling evidence presented
16 to make an adjustment to the rate case expense.

17
18 Q. Please explain RUCO's reasons to dispel the Company's arguments for
19 higher rate case expenses.

20 A. First, RUCO, through discovery, requested details to support the
21 Company's estimated \$160,000 for rate case expenses. However, the
22 Company objected to RUCO's request and stated the information RUCO
23 seeks is not available. The Company did provide two sets of source

1 documents totaling \$109,000. After reviewing the first set of documents
2 totaling \$54,000, RUCO determined over \$32,000 of the expenses
3 incurred were questionable and identified those charges to the Company
4 in response to Gold Canyon's data request 1.29 (See Surrebuttal Exhibit B
5 – RUCO Response To GCSC DR 1.29).

6
7 Furthermore, after reviewing the second set of supplemental documents
8 totaling \$77,000, RUCO determined over \$40,000 of these expenses were
9 questionable.

10
11 Therefore, presently, RUCO considers \$72,000 out of the actual \$109,000
12 of rate case expenses to be questionable and requiring further scrutiny to
13 determine their reasonableness as an allowable expense.

14
15 Since the Company is either unwilling or unable to adequately explain the
16 cost components of the estimated \$160,000 for rate case expense, RUCO
17 relied on comparable expenses authorized in similar type rate cases.

18
19 Second, RUCO attempted on several occasions to help the Company
20 mitigate rate case expenses by suggesting cost saving alternatives.
21 RUCO contacted Fennemore Craig and suggested the Company could
22 mitigate copying costs by reducing the number of voluminous responses
23 to one copy instead of the usual two copies. Fennemore Craig rejected

1 RUCO's offer. Then RUCO requested the Company honor the standard
2 language in all of RUCO's data request cover letters, which requests the
3 Company contact RUCO where volumes of material are involved to
4 discuss limiting the response. However, the Company again rejected
5 RUCO's request and remains unwilling to limit or reduce rate case costs.
6 (See Surrebuttal Exhibit C – RUCO Initiated Correspondence To Mitigate
7 Rate Case Expense).

8

9 Simply because the Company incurs costs does not necessarily and
10 automatically mean those expenses are fair and reasonable. Ratepayers
11 should not be burdened with frivolous, exorbitant and/or avoidable rate
12 case expenses.

13

14 Third, the Company suggests it does not control the costs. However, the
15 Company does have control over its costs. For instance, as I explained
16 above, objecting or denying to provide commonly requested information
17 creates costly unnecessary litigation; also, providing unnecessarily
18 voluminous stacks of data creates preventable costs. The Company has
19 control over the issues it chooses to litigate as well as over the consulting
20 fees it chooses to spend.

21 . . .

22 . . .

23 . . .

1 Fourth, the Company suggests a different group of recent rate cases
2 would provide a comparatively higher rate case expense. However,
3 RUCO was not an intervenor in many of those cases and did not propose
4 an adjustment to rate case expenses in any of the Company's comparison
5 group. RUCO chooses to utilize comparable companies with which it has
6 first hand knowledge of the facts and circumstances in its group of rate
7 cases.

8
9 Thus, for reasons explained here and in my direct testimony and as shown
10 on SURR RLM-7, column (F) this adjustment decreases adjusted test-year
11 operating expenses by:
12 (\$22,500).

13
14 **Operating Income Adjustment No. 10 – RUCO Removal Of Inappropriate**
15 **Expenses**

16 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
17 adjustment to remove inappropriate expenses unnecessary for the
18 provisioning of utility services?

19 A. No. I continue to advocate for the disallowance of expenses RUCO
20 deems inappropriate and/or unnecessary for the provisioning of utility
21 services. The Company's rebuttal adjustment number 4 accepts \$1,334 of
22 RUCO's recommended disallowance.

23 . . .

1 However, as shown on Schedule SURR RLM-10, RUCO is recommending
2 further decreases to adjusted test-year expenses of:
3 (\$264).

4

5 **Operating Income Adjustment No. 13 – Income Tax Expense**

6 Q. What adjustments have you made to the test-year Income Tax Expense
7 account?

8 A. As shown on Schedule SURR RLM-13, I recalculated total test-year
9 income taxes to reflect calculations based on my surrebuttal adjusted test-
10 year revenue and expenses.

11

12 As shown on Schedule SURR RLM-7, column (H), this adjustment
13 decreases adjusted test-year expenses by:
14 (\$81,921).

15

16 **COST OF CAPITAL**

17 Q. Is RUCO proposing a surrebuttal adjustment to the Company proposed
18 cost of capital?

19 A. Yes, it is. This adjustment decreases the Company's rebuttal cost of
20 common equity and therefore decreases its weighted cost of capital by
21 196 basis points from 10.50 to 8.54 percent to reflect current market
22 conditions.

23 ...

1 This adjustment is fully explained in the surrebuttal testimony of RUCO
2 witness William A. Rigsby.

3

4 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

5 Q. Have you revised your Schedule presenting your recommended rate
6 designs?

7 A. Yes, as shown on Schedule SURR RLM-15, I am recommending a rate
8 design that is consistent with RUCO's recommended revenue allocations
9 and requirements as revised in my surrebuttal testimony. The rate design
10 provides for approximately 37 percent increase equally across all classes
11 of service, which is a 60 percent decrease over the Company's requested
12 92 percent.

13

14 Q. Have you revised your Schedule presenting proof of your recommended
15 revenue?

16 A. Yes, I have. As shown on Schedule SURR RLM-15, starting below line 5,
17 my recommended rate design will produce the recommended required
18 revenue as revised in my surrebuttal testimony.

19

20 Q. Does this conclude your surrebuttal testimony?

21 A. Yes, it does.

EXHIBIT A



2005 PINAL COUNTY

THIS IS THE ONLY TAX NOTICE YOU WILL RECEIVE.

The Office of County Treasurer has elected to send individual property tax statements to the owner of record to enable the property owner to examine the manner in which valuation of taxable property has affected assessments. IF PROPERTY TAXES ARE PAID THROUGH MORTGAGE IMPOUNDMENTS (MONTHLY PAYMENTS TO FINANCIAL INSTITUTIONS, BANKS, SAVINGS AND LOAN ETC) PLEASE FORWARD THIS TAX STATEMENT TO THE FINANCIAL INSTITUTION TO WHICH IMPOUND PAYMENTS ARE REGULARLY MADE.

2005 PINAL COUNTY

TAX STATEMENT

LEVY TYPE: PRM = Primary Value
SEC = Secondary Value

PINAL CO. 11
952-14-30100
AREA CODE 43018

AUTHORITY NUMBER	TAX AUTHORITY	LEVY TYPE	PURPOSE	2005 TAX DISTRIBUTION	2004 TAX DISTRIBUTION	INCREASE OR DECREASE	TAX RATE
00300	MCOR Accom/Altern School	PRM		1,178.94	1,047.50	131.44	.1331
02000	Pinal County	PRM		39,444.26	32,507.48	6,846.78	4.4582
02010	School Equalization	PRM		3,860.12	3,337.92	522.20	.4358
07043	Apache Junction USD #043	PRM		36,030.56	32,823.66	3,206.90	4.0678
07043	Apache Junction USD #043	PRM	Adj Ways	1,404.84	1,249.52	155.32	.1586
07043	Apache Junction USD #043	SEC	"A" Bonds	10,063.90	9,723.16	340.74	1.1362
07043	Apache Junction USD #043	SEC	"B" Bonds	1,510.22	.00	1,510.22	.1705
07043	Apache Junction USD #043	SEC	Override	6,616.56	5,602.00	1,014.56	.7470
08150	Pinal County Jr College	PRM		18,600.76	15,738.02	2,862.74	2.1000
08150	Pinal County Jr College	SEC	Bonds	.00	.00	.00	.0000
11642	Apache Junction Fire	SEC		21,966.62	18,153.64	3,812.98	2.4800
11900	Fire Dist Assistance Tax	SEC		757.32	630.98	126.34	.0855
14613	Central AZ Water Conservation	SEC		1,062.90	878.40	184.50	.1200
14900	Pinal County Library	SEC		504.88	417.24	87.64	.0570
15626	Pinal County Flood	SEC		153.18	189.38	36.20	.0900
30001	East Valley Institute/Tech #1	SEC		507.52	398.20	109.32	.0573
30001	East Valley Institute/Tech #1	SEC	Bonds	.00	349.18	349.18	.0000
TOTAL				143,662.58	123,136.28	20,526.30	

0136597 01 AT 0.2

TAX

2005 TOTAL TAXES	FIRST HALF TAXES	SECOND HALF TAXES	DELINQUENT TAXES AS OF August 23, 2005	TOTAL TAXES DUE
143,662.58	71,831.29	71,831.29	.00 If paid by November 1, 2005	143,662.58

TOTAL VALUE OF OPERATING PROPERTY
104-11-012-F 58,170

LEGALS

PRIMARY

FULL CASH VALUE	RATIO
3,543,000	.2500
EXEMPTION	
NET ASSESSED	
885,751	
TAX RATE	
11.348500	
REDUCTION RATE	
1.428932	

GROSS PRIMARY TAXES

100,519.48
LESS STATE AID
.00
2005 PRIMARY TAXES
100,519.48

SECONDARY

FULL CASH VALUE	RATIO
3,543,000	.2500
EXEMPTION	
NET ASSESSED	
885,751	
TAX RATE	
4.943500	

2005 SECONDARY TAXES

43,143.10

EXHIBIT A - 2005 PROPERTY TAX STATEMENT

0136597 01 A

EXHIBIT B

RUCO's First Set of Data Requests
April 11, 2006
Page 2

If any request is considered overly burdensome or would require the production of a voluminous amount of material, contact me at RUCO as soon as possible to discuss clarification or possible limits to the Company's response.

Please provide one copy of the requested data directly to each of the following addresses:

1) Daniel W. Pozefsky
Attorney
Residential Utility Consumer Office
1110 West Washington Street
Suite 220
Phoenix, Arizona 85007
dpozefsky@azruco.com

2) Marylee Diaz Cortez
Audit Manager
Residential Utility Consumer Office
1110 West Washington Street
Suite 220
Phoenix, Arizona 85007
mcortez@azruco.com

If you have any questions, please do not hesitate to contact me.

Thank you for your time and cooperation.

Very truly yours,

Daniel W. Pozefsky
Attorney

cc: Jay L. Shapiro (*via email only*)
jshapiro@fclaw.com



RESIDENTIAL UTILITY CONSUMER OFFICE

1110 WEST WASHINGTON STREET • SUITE 220 • PHOENIX, ARIZONA 85007 • (602) 364-4835 • FAX: (602) 364-4846

Janet Napolitano
Governor

Stephen Ahearn
Director

April 11, 2006

VIA ELECTRONIC MAIL ORIGINAL MAILED

Mr. Michael Weber
12725 W. Indian School Road
Suite D-101
Phoenix, AZ 85323
mike.weber@algonquinwater.com

Mr. Thomas Bourassa
139 W. Wood Drive
Phoenix, Arizona 85029
tjb114@cox.net

Re: RUCO's First Set of Data Requests
to Gold Canyon Sewer Company
ACC Docket No. SW-02519A-06-0015

Dear Messrs. Weber and Bourassa:

Attached is the Residential Utility Consumer Office's ("RUCO") First Set of Data Requests to Gold Canyon Sewer Company ("Company"). RUCO should expect to receive the Company's response on or before Friday, April 21, 2006.

Please indicate the person or persons responsible for compilation of the information provided in response to these Data Requests, and the witness to whom questions regarding that information should be directed. Please see the attached list of definitions and explanations for further instructions.

These requests are continuing in nature. Accordingly, the Company is requested to supplement prior responses if it receives or generates additional information, reports, or other data within the scope of these data requests between the time of the original response and the hearing.

EXHIBIT B –RUCO RESPONSE TO GCSC DR 1.29

FIRST SET OF DATA REQUESTS
FROM GOLD CANYON SEWER COMPANY
TO RESIDENTIAL UTILITY CONSUMER OFFICE
(DOCKET NO. SW-02519A-06-0015)

- 1.29 Moore testifies (DT at 24) that "over \$32,000" of rate case expense incurred by Gold Canyon is "questionable". Regarding this allegation, please--
- a. Identify the individual charges that make up the \$32,000
 - b. Give the reason or reasons each of these charges is "questionable".

Response: Rodney Moore

As per the Company's response in RUCO data request 1.13:

Thomas J. Bourassa, CPA (Invoice No. 1000002166-B) for \$14,413.35, which states, "Revised bill count based on new bill count date sent from GCSC."

Questionable reason: Ratepayers should not pay exorbitant amounts to revise a bill count.

Algonquin Water Services LLC, 13 pages of invoices, totaling \$14,962.50 in rate case expenses for several of their employees.

Questionable reason: These expenses maybe a double count and may also be recorded in test-year Contract Services Expenses.

Fennemore Craig, P.C., several invoices indicate Jay Shapiro is "working on testimonies" of Weber and Bourassa in excess of \$11,000.

Questionable reason: \$11,000 is excessive for an attorney to charge to review testimonies in a small wastewater company case.

EXHIBIT C

EXHIBIT C –RUCO INITIATED CORRESPONDENCE TO MITIGATE RATE CASE EXPENSES**Dan Pozefsky**

From: SHAPIRO, JAY [JSHAPIRO@FCLAW.COM]
Sent: Friday, July 21, 2006 11:55 AM
To: Dan Pozefsky
Subject: RE: Far West, Gold Canyon

Dan--I am sorry but you already have my answer on this issue. In short, what you are asking is not a data request and I do not think we are responsible to do what RUCO is asking because it shifts the burden of evaluating what RUCO wants to the utility. If RUCO's standard form of data request is not working for it, you can modify it. Or, you can ask for a procedural conference with the ALJ. Either way, we will continue to respond to data requests as we have in the past.

Jay

From: Dan Pozefsky [mailto:DanP@azruco.gov]
Sent: Friday, July 21, 2006 11:39 AM
To: SHAPIRO, JAY
Cc: Marylee Diaz Cortez; Rodney Moore
Subject: RE: Far West, Gold Canyon

Jay,

I noticed that in our standard data request cover letter, we do have language requesting that we be contacted in advance if any of our data requests require the production of "voluminous amount of materials...to discuss clarification or possible limits to the Company's response." In the future, we would appreciate it if the Company's you work with would honor this request.

Dan

From: SHAPIRO, JAY [mailto:JSHAPIRO@FCLAW.COM]
Sent: Wednesday, June 21, 2006 12:03 PM
To: Dan Pozefsky
Subject: RE: Far West, Gold Canyon

Dan--in both rate cases you reference, RUCO asked our client to provide it with two copies of all data request responses provided to other parties. To the best of my knowledge, our clients have done exactly what RUCO requested. In this light, I must confess to not understanding how our clients' complying with RUCO's data requests is going to become a "big issue".

That said, if RUCO wants to change its data request, it is free to do so at anytime. Or, in the alternative, we would be happy to notify RUCO that data requests have been sent to another party and RUCO can then send someone to our office to review those documents and select what it would like to receive. of course, each time, we will require RUCO to specify, in writing, that it has declined to receive full copies of the subject data request responses sent to other parties. This is necessary in the event RUCO were to later argue that it was not provided information on a particular issue.

What we will not do, however, is make subjective determinations on what RUCO may or may not want, based on the "volume" of a response or otherwise. If RUCO wants to make an "issue" of that position you will need to file something with the ALJs.

Jay

8/14/2006

EXHIBIT C -RUCO INITIATED CORRESPONDENCE TO MITIGATE RATE CASE EXPENSES

From: Dan Pozefsky [mailto:DanP@azruco.gov]
Sent: Wednesday, June 21, 2006 9:34 AM
To: SHAPIRO, JAY
Subject: Far West, Gold Canyon

Jay,

I am writing with the hope of diffusing what may become a big issue in the above cases between RUCO and the Companies. Apparently, Staff, at least in the Gold Canyon case has been making Data Requests which have required volumes of paperwork to respond to. As is custom we have asked for two copies of all responses provided to other parties in response to Data Requests - one to the attorney and one to our analysts. When we make this request, we do not envision large volumes of paper work (You may notice that we never ask Data Requests that require volumes of paperwork).

With very few exceptions we do not need all the paperwork to do our analysis. What we do with other utilities - APS, TEP, Qwest etc. is they advise us ahead of time when the paperwork is voluminous and we tell them what we need if anything or agree to go view the paperwork somewhere and make copies of what we need. We seldom need all the paperwork and can get by usually with just one copy. What I am suggesting is the Company advise us (the analysts working on the case) ahead of time when there is a voluminous response and we will advise the Company what if anything, we need.

Please discuss this with your clients. As you can see from our data responses we consider what we should be able to resolve by more communication a rate case expense issue.

Dan

www.fennemorecraig.com

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8/14/2006

Gold Canyon Sewer Company
Docket No. SW-02519A-06-0015
Test Year Ended October 31, 2005

**SURREBUTTAL
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TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED AMORTIZATION OF CIAC
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SURR RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 10 - RUCO REMOVAL OF INAPPROPRIATE EXPENSES
SURR RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 13 - INCOME TAX EXPENSE
SURR RLM-14	1	COST OF CAPITAL
SURR RLM-15	1	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

**SURREBUTTAL
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) COMPANY REBUTTAL OCRB/FVRB	(C) RUCO DIRECT OCRB/FVRB	(D) RUCO SURREBUTTAL OCRB/FVRB
1	Fair Value Rate Base	\$ 16,108,688	\$ 15,743,898	\$ 13,368,387	\$ 13,062,308
2	Adjusted Operating Income (Loss)	\$ 171,878	\$ 241,749	\$ 538,818	\$ 552,940
3	Current Rate Of Return (L2 / L1)	1.07%	1.54%	4.03%	4.23%
4	Required Operating Income (L5 X L1)	\$ 1,691,412	\$ 1,653,109	\$ 1,177,755	\$ 1,115,521
5	Required Rate Of Return On Fair Value Rate Base	10.50%	10.50%	8.81%	8.54%
6	Operating Income Deficiency (L4 - L2)	\$ 1,519,534	\$ 1,411,360	\$ 638,937	\$ 562,581
7	Gross Rev. Conversion Factor (SURR RLM-1, Pg 2)	1.6286	1.6286	1.6286	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 2,474,767	\$ 2,298,590	\$ 1,040,595	\$ 916,239
9	Adjusted Test Year Revenue	\$ 2,496,380	\$ 2,496,380	\$ 2,496,369	\$ 2,496,380
10	Proposed Annual Revenue (L8 + L9)	\$ 4,971,147	\$ 4,794,970	\$ 3,536,964	\$ 3,412,619
11	Required Percentage Increase In Revenue (L8 / L9)	99.13%	92.08%	41.68%	36.70%
12	Rate Of Return On Common Equity	10.50%	10.50%	9.04%	9.04%

References:

Column (A): Company Schedules A-1 and C-1

Column (B): RUCO Schedule SURR RLM-2, SURR RLM-6, And SURR RLM-14

SURREBUTTAL
REVENUE REQUIREMENT - CONT'D
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	(0.3860)			
3	Subtotal (L1 + L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
	CALCULATION OF EFFECTIVE TAX RATE:				
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (SURR RLM-1, Col. (B), L4)	\$ 1,115,521			
12	Adj'd T.Y. Oper'g Inc. (Loss) (SURR RLM-1, Col. (B), L2)	552,940			
13	Required Increase In Operating Income (L11 - L12)		\$ 562,581		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 423,709			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	70,051			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 353,658		
17	Total Required Increase In Revenue (L13 + L16)		\$ 916,239		
	CALCULATION OF INCOME TAX:				
				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Col. (B), L10)			\$ 3,412,619	
19	Operating Expense Excluding Income Tax (SURR RLM-5, Col. (E), L25 - L24)			(1,873,389)	
20	Synchronized Interest (Col. (C), L37)			(441,506)	
21	Arizona Taxable Income (L18 + L19 + L20)			\$ 1,097,724	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 76,489
24	Fed. Taxable Income (L21 - L23)			\$ 1,021,235	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			233,320	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 347,220
31	Combined Federal And State Income Tax (L23 + L30)				\$ 423,709
32	Test Year Combined Income Tax, RUCO As Adjusted (SURR RLM-6, Col. (C), L24)				\$ 70,051
33	RUCO Adjustment (L31 - L32) (See SURR RLM-6, Col. (D), L24)				\$ 353,658
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
	CALCULATION OF INTEREST SYNCHRONIZATION:				
35	Rate Base (Sch. SURR RLM-2, Col. (H), L15)			\$ 13,062,308	
36	Weighted Avg. Cost Of Debt (Sch. SURR RLM-14, Col. (F), L1)			3.38%	
37	Synchronized Interest (L35 X L36)			\$ 441,506	

**SURREBUTTAL
SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) COMPANY ADJUSTED OCRB/FVRB	(C) COMPANY REBUTTAL OCRB/FVRB	(D) RUCO ADJM'T NO. 2	(E) RUCO ADJM'T NO. 3	(F) RUCO ADJM'T NO. 4	(G) RUCO ADJM'T NO. 5	(H) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 21,359,395	\$ (265,146)	\$ 21,094,249	\$ -	\$ -	\$ -	\$ (2,901,605)	\$ 18,192,644
2	Accumulated Depreciation	(1,608,290)	289,709	(1,318,581)	-	-	(5,397)	36,270	(1,287,708)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 19,751,105</u>	<u>\$ 24,563</u>	<u>\$ 19,775,668</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,397)</u>	<u>\$ (2,865,335)</u>	<u>\$ 16,904,936</u>
4	Advances In Aid Of Const.	\$ (2,064,125)	\$ -	\$ (2,064,125)	\$ -	\$ -	\$ -	\$ -	\$ (2,064,125)
5	Contribution In Aid Of Const.	\$ (1,827,557)	\$ -	\$ (1,827,557)	\$ -	\$ -	\$ -	\$ 77,285	\$ (1,750,272)
6	Accumulated Amortization Of CIAC	145,364	-	145,364	(6,576)	-	-	(966)	\$ 137,822
7	NET CIAC (L5 + L6)	<u>\$ (1,682,193)</u>	<u>\$ -</u>	<u>\$ (1,682,193)</u>	<u>\$ (6,576)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,319</u>	<u>\$ (1,612,450)</u>
8	Customer Meter Deposits	\$ (30,769)	\$ -	\$ (30,769)	\$ -	\$ -	\$ -	\$ -	\$ (30,769)
9	Accumulated Deferred Income Tax	\$ -	\$ (254,681)	\$ (254,681)	\$ -	\$ -	\$ -	\$ -	\$ (254,681)
	Working Capital:								
10	1/8 Oper. & Maint. Exp.	\$ 116,481	\$ (116,481)	\$ -	\$ -	\$ 100,950	\$ -	\$ -	\$ 100,950
11	1/24 Pumping Power	4,460	(4,460)	-	-	4,460	-	-	4,460
12	1/24 Purchased Treatment	-	-	-	-	257	-	-	257
13	Materials And Supplies Inventories	-	-	-	-	-	-	-	-
14	Prepayments	13,731	(13,731)	-	-	13,731	-	-	13,731
15	Working Capital (Sum L8 Thru L12)	<u>\$ 134,672</u>	<u>\$ (134,672)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 119,398</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 119,398</u>
16	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 & 14)	<u>\$ 16,108,690</u>	<u>\$ (364,790)</u>	<u>\$ 15,743,900</u>	<u>\$ (6,576)</u>	<u>\$ 119,398</u>	<u>\$ (5,397)</u>	<u>\$ (2,789,016)</u>	<u>\$ 13,062,308</u>

References:

Column (A): Company Application Schedule B-2, Page 1 And Workpapers Schedule E-1
Column (B): Company Rebuttal Rate Base Adjustments:
Column (C): Company Rebuttal Schedule B-2, Pages 1 Through 7
Column (D): Adjustment No. 2 - Direct And Surrebuttal Adjustment To Contributions-In-Aid Of Construction (See Testimony, RLM)
Column (E): Adjustment No. 3 - Surrebuttal Adjustment To The Allowance For Working Capital (See SURR RLM-3, Column (C), Line 26)
Column (F): Adjustment No. 4 - Adjustment To Accumulated Depreciation Related To Plant Retirements (See SURR RLM-4, Column (D), Line 29)
Column (G): Adjustment No. 5 - Surrebuttal Adjustment To Disallow Excess Capacity (See SURR RLM-5)
Column (H): Sum Of Columns (C), (D), (E), (F) & (G)

SURREBUTTAL
EXPLANATION OF RATE BASE ADJUSTMENT NO. 2
ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJ'TS	REF	(C) RUCO AS ADJUSTED
	Cash Working Capital:				
1	1/8 Operations and Maintenance Expense	\$ 116,481	\$ 100,950	A	\$ 217,431
2	1/24 Pumping Power Expense	4,460	4,460	B	8,920
3	1/24 Purchased Wastewater Treatment	2,420	257	C	2,677
4	Materials and Supplies Inventories	-	-	D	-
5	Prepayments	13,731	13,731	E	27,462
6	Total Working Capital Allowance (Sum L1 Thru L5)	<u>\$ 137,092</u>	<u>\$ 119,398</u>	F	<u>\$ 256,490</u>
	Adjustments:				
	A - 1/8 Operations and Maintenance Expense				
7	As Per RUCO SURR RLM-6 Col. (E), L25 - L's 6, 8, 21, 22, 23 & 24				\$ 807,601
8	As Per Company's Rebuttal Testimony (Schedule B-5)				-
9	Difference (L8 - L9)				<u>\$ 807,601</u>
10	1/8 of Difference (L9 x 1/ 8)				<u>\$ 100,950</u>
	B - 1/24 Pumping Power Expense				
11	As Per RUCO SURR RLM-6 Col. (E), Line 8)				\$ 107,040
12	As Per Company's Rebuttal Testimony (Schedule B-5)				-
13	Difference (L12 - L13)				<u>\$ 107,040</u>
14	1/24 of Difference (L14 X 1/24)				<u>\$ 4,460</u>
	C - 1/24 Purchased Wastewater Treatment Charges				
15	As Per RUCO SURR RLM-6 Col. (E), Line 6)				\$ 6,159
16	As Per Company's Rebuttal Testimony (Schedule B-5)				-
17	Difference (L16 - L17)				<u>\$ 6,159</u>
18	1/24 of Difference (L18 X 1/24)				<u>\$ 257</u>
	D - Materials and Supplies Inventories				
19	As Per RUCO				\$ -
20	As Per Company's Application (Schedule E-1)				-
21	Difference (L20 - L21)				<u>\$ -</u>
	E - Prepayments				
22	As Per RUCO				\$ 13,731
23	As Per Company's Application (Schedule E-1)				-
24	Difference (L23 - L24)				<u>\$ 13,731</u>
25	F - Total Working Capital Allowance Adjustment (L10 + L14 + L18 + L21 + L24)				<u>\$ 119,398</u>
26	RUCO Adjustment (Line 25) (See SURR RLM-2, Column (D))				<u><u>\$ 119,398</u></u>

References:

Column (A): Company Schedule B-5
Column (B): See Adjustments A, B, C, D, E & F
Column (C): Column (A) + Column (B)

**SURREBUTTAL
TEST YEAR PLANT SCHEDULE
YEAR ENDED OCTOBER 31, 2005**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDIT'NS	(B) PLANT RETIRM'TS	(C) TOTAL PLANT VALUE	(D) ACCUM. DEP.	(E) NET PLANT VALUE
1	351	Organization	\$ -	\$ -	\$ 25,000	\$ -	\$ 25,000
2	352	Franchises	-	-	25,000	-	25,000
3	353	Land and Land Rights	-	-	-	-	-
4	354	Structures And Improvements	3,849,732	-	4,989,154	(97,787)	4,891,367
5	355	Power Generation Equipment	-	-	-	-	-
6	360	Collection Sewers - Force	6,713	-	79,427	(3,797)	75,630
7	361	Collection Sewers - Gravity	91,374	-	1,570,492	(437,831)	1,132,661
8	362	Special Collecting Structures	-	-	19,067	(1,668)	17,399
9	363	Services To Customers	2,570	-	21,498	(1,470)	20,028
10	364	Flow Measuring Devices	-	-	3,708	(233)	3,475
11	365	Flow Measuring Installations	4,015	-	159,573	(11,262)	148,311
12	370	Receiving Wells	-	-	-	-	-
13	371	Pumping Equipment	13,465	-	66,132	(3,271)	62,861
14	380	Treatment And Disposal Equipment	7,265,830	(272,191)	10,672,039	(529,187)	10,142,852
15	381	Plant Sewers	-	-	945	(59)	886
16	382	Outfall Sewer Lines	-	-	-	-	-
17	389	Other Plant And Miscellaneous Equip.	42,034	-	3,408,092	(224,008)	3,184,084
18	390	Office Furniture And Equipment	22,121	-	36,709	(1,471)	35,238
19	391	Transportation Equipment	-	-	-	-	-
20	393	Tools, Shop And Garage Equipment	-	-	-	-	-
21	394	Laboratory Equipment	2,617	-	17,413	(1,141)	16,272
22	395	Power Operated Equipment	-	-	-	-	-
23	398	Other Tangible Plant	-	-	-	-	-
24		RUCO Accepts Company Adj. No. 1	-	-	-	-	-
25		RUCO Accepts Company Adj. No. 2	-	-	-	-	-
26		TOTAL WASTEWATER PLANT	<u>\$ 11,300,471</u>	<u>\$ (272,191)</u>	<u>\$ 21,094,249</u>	<u>\$ (1,313,184)</u>	<u>\$ 19,781,065</u>
27		Company As Filed	11,295,074	(266,794)	21,094,249	(1,318,581)	19,775,668
28		Difference	<u>\$ 5,397</u>	<u>\$ (5,397)</u>	<u>\$ -</u>	<u>\$ (5,397)</u>	<u>\$ 5,397</u>
29		RUCO Rate Base Adjustment No. 1 (Line 28) (See SURR RLM-2, Column (A))				<u>\$ (5,397)</u>	
Excess Capacity (See Testimony, RLM)							
30		Phase III WWTP Expansion - Excess Capacity (SURR RLM-4, Page 1, Line 26)			<u>\$ (2,901,605)</u>	<u>\$ 36,270</u>	
31		RUCO Rate Base Adjustment No. 4 (See SURR RLM-2, Column (G))			<u>\$ (2,901,605)</u>	<u>\$ 36,270</u>	
31		RUCO ADJUSTED PLANT			<u>\$ 18,192,644</u>	<u>\$ (1,276,914)</u>	<u>\$ 16,915,730</u>

References:

Columns (A) (B): Company Schedules B-2, Page 2a Thru B-2, Page 2k

Column (C): [(Col. (A) + Col. (B)) X WP RLM-5, Page 1, Col. (A) X 1/2 yr. conv.] + [WP RLM-4, Page 6, Col. (D) X WP RLM-4, Page 1, Col. (A)]

Column (D): Schedule WP RLM-4, Page 6, Column (D) + (Column (A) + Column (B))

Column (E): Schedule WP RLM-4, Page 6, Column (E) + Column (B) + Column (C)

Column (F): Column (D) - Column (E)

SURREBUTTAL
EXPLANATION OF RATE BASE ADJUSTMENT NO. 4
REMOVAL OF EXCESS TREATMENT PLANT CAPACITY

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PHASE III PLANT ADDITIONS	(B) 28.05% EXCESS CAPACITY	(C) ADJUSTED PLANT VALUE	(D) AUTHORIZED DEPRECIATION RATES	(E) EXCESS CAPACITY ACC. DEP.
1	351	Organization	\$ -	\$ -	\$ 25,000	0.00%	\$ -
2	352	Franchises	-	-	25,000	0.00%	-
3	353	Land and Land Rights	-	-	-	0.00%	-
4	354	Structures And Improvements	3,045,954	(854,470)	4,134,684	2.50%	10,681
5	355	Power Generation Equipment	-	-	-	2.50%	-
6	360	Collection Sewers - Force	6,713	(1,883)	77,544	2.50%	24
7	361	Collection Sewers - Gravity	20,096	(5,637)	1,564,855	2.50%	70
8	362	Special Collecting Structures	-	-	19,067	2.50%	-
9	363	Services To Customers	-	-	21,498	2.50%	-
10	364	Flow Measuring Devices	-	-	3,708	2.50%	-
11	365	Flow Measuring Installations	-	-	159,573	2.50%	-
12	370	Receiving Wells	-	-	-	2.50%	-
13	371	Pumping Equipment	-	-	66,132	2.50%	-
14	380	Treatment And Disposal Equipment	7,260,433	(2,036,743)	8,635,296	2.50%	25,459
15	381	Plant Sewers	-	-	945	2.50%	-
16	382	Outfall Sewer Lines	-	-	-	2.50%	-
17	389	Other Plant And Miscellaneous Equip.	-	-	3,408,092	2.50%	-
18	390	Office Furniture And Equipment	10,238	(2,872)	33,837	2.50%	36
19	391	Transportation Equipment	-	-	-	2.50%	-
20	393	Tools, Shop And Garage Equipment	-	-	-	2.50%	-
21	394	Laboratory Equipment	-	-	17,413	2.50%	-
22	395	Power Operated Equipment	-	-	-	2.50%	-
23	398	Other Tangible Plant	-	-	-	2.50%	-
24		RUCO Accepts Company Adj. No. 1	-	-	-	2.50%	-
25		RUCO Accepts Company Adj. No. 2	-	-	-	2.50%	-
26		TOTAL WASTEWATER PLANT	\$ 10,343,434	\$ (2,901,605)	\$ 18,192,644		\$ 36,270
		Less:					
27		CIAC Attributable To Expansion (A.C.C. Report)	\$ 275,500	\$ 77,285	\$ 352,785	2.50%	\$ (966)
28		Excess Capacity Removed (Line 26 + 27)		\$ (2,824,320)			\$ 35,304
		RUCO ADJUSTMENTS TO REMOVE EXCESS CAPACITY					
29		Excess Gross Plant Adjustment				Column (B), Line 26	\$ (2,901,605)
30		Excess Accumulated Depreciation Adjustment				Column (D), Line 26	36,270
31		Gross CIAC Attributed To Excess Capacity Adjustment				Column (B), Line 27	77,285
32		Accumulated Amortization Of CIAC Adjustment				Column (D), Line 27	(966)
33		TOTAL ADJUSTMENT (See RLM-2, Column (E))			Sum Of Lines 29 Thru 32		\$ (2,789,016)

References:

Columns (A) (C): Company Workpapers
Column (B): Company Response To RUCO Data Request 2.6 c & d
Column (D): Column (B) X Column (C)

NOTE

RUCO ANALYSIS TO DETERMINE PERCENTAGE OF EXCESS CAPACITY

YEAR	DESCRIPTION	FLOW RATE (mgd)	MAXIMUM (mgd)	EXCESS CAPACITY (mgd)	PERCENTAGE EXCESS CAP.
2005	Data Provided By Company In Its	0.708	1.900	1.192	62.74%
2006	Response To RUCO Data Reque:	1.196	1.900	0.704	37.05%
2007	2.6 c and d	1.283	1.900	0.617	32.47%
2008		1.367	1.900	0.533	28.05%
2009		1.467	1.900	0.433	22.79%
2010		1.574	1.900	0.326	17.16%
2011		1.688	1.900	0.212	11.16%
2012		1.811	1.900	0.089	4.68%

**SURREBUTTAL
OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) COMPANY ADJUSTM'TS	(C) COMPANY REBUTTAL	(D) RUCO TEST YEAR ADJM'TS	(E) RUCO TEST YEAR AS ADJ'TED	(F) RUCO PROP'D CHANGES	(G) RUCO AS RECOMM'D
	Revenues:							
1	Flat Rate Revenues	\$ 2,451,576	\$ -	\$ 2,451,576	\$ -	\$ 2,451,576	\$ 916,239	\$ 3,367,815
2	Miscellaneous Service Revenues	-	-	-	-	-	-	-
3	Other Wastewater Revenues	44,804	-	44,804	-	44,804	-	44,804
4	TOTAL OPERATING REVENUE	<u>\$ 2,496,380</u>	<u>\$ -</u>	<u>\$ 2,496,380</u>	<u>\$ -</u>	<u>\$ 2,496,380</u>	<u>\$ 916,239</u>	<u>\$ 3,412,619</u>
	Operating Expenses:							
5	Salaries And Wages	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -
6	Purchased Wastewater Treatment	6,159	-	6,159	-	6,159	-	6,159
7	Sludge Removal Expense	44,737	-	44,737	-	44,737	-	44,737
8	Purchased Power	107,040	-	107,040	-	107,040	-	107,040
9	Fuel For Power Production	-	-	-	-	-	-	-
10	Chemicals	63,590	-	63,590	-	63,590	-	63,590
11	Materials And Supplies	13,042	(1,747)	11,295	-	11,295	-	11,295
12	Contractual Services - Professional	22,068	-	22,068	-	22,068	-	22,068
13	Contractual Services - Testing	11,655	-	11,655	-	11,655	-	11,655
14	Contractual Services - Other	599,919	(71,955)	527,964	-	527,964	-	527,964
15	Repair And Maintenance	-	-	-	-	-	-	-
16	Rents	35,925	(22,000)	13,925	-	13,925	-	13,925
17	Transportation Expenses	6,293	-	6,293	-	6,293	-	6,293
18	Insurance	18,680	-	18,680	-	18,680	-	18,680
19	Regulatory Commission Expense	40,000	-	40,000	(22,500)	17,500	-	17,500
20	Miscellaneous Expense	75,936	(5,778)	70,158	(264)	69,894	-	69,894
21	Depreciation Expense	917,428	(13,472)	903,956	(126,723)	777,233	-	777,233
22	Taxes Other Than Income	-	-	-	-	-	-	-
23	Property Taxes	253,982	1,157	255,139	(79,784)	175,355	-	175,355
24	Income Tax	108,048	43,924	151,972	(81,921)	70,051	353,658	423,709
25	TOTAL OPERATING EXPENSES	<u>\$ 2,324,502</u>	<u>\$ (69,871)</u>	<u>\$ 2,254,631</u>	<u>\$ (311,191)</u>	<u>\$ 1,943,440</u>	<u>\$ 353,658</u>	<u>\$ 2,297,098</u>
26	OPERATING INCOME (LOSS)	<u>\$ 171,878</u>		<u>\$ 241,749</u>		<u>\$ 552,940</u>		<u>\$ 1,115,521</u>

References: Columns (A) (B) (C): Company Rebuttal Schedule C-1

Column (D): RLM-7, Columns (B) Thru (D)

Column (E): Column (C) + Column (D)

Column (F): SURR RLM-14, Column (D), Lines 17 & 18 And SURR RLM-1, Pg 2, Col. (D), Line 33

Column (G): Column (E) + Column (F)

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND SURREBUTTAL ADJUSTMENTS 1, 2, 3, --- 10 AND 13

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) COMPANY ADJUSTM'TS	(C) COMPANY REBUTTAL	(D) ADJ #1	(E) ADJ #2	(F) ADJ #3	(G) ADJ #10	(H) ADJ #13	(I) RUCO AS ADJT'D
Revenues:										
1	Flat Rate Revenues	\$ 2,451,576	\$ -	\$ 2,451,576	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,451,576
2	Misc. Service Rev.	-	-	-	-	-	-	-	-	-
3	Other WW Rev.	44,804	-	44,804	-	-	-	-	-	44,804
4	TOTAL OPR'G REV.	\$ 2,496,380		\$ 2,496,380	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,496,380
Operating Expenses:										
5	Salaries And Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purch'd WW Treat.	6,159	-	6,159	-	-	-	-	-	6,159
7	Sludge Removal Exp.	44,737	-	44,737	-	-	-	-	-	44,737
8	Purchased Power	107,040	-	107,040	-	-	-	-	-	107,040
9	Fuel - Power Prod.	-	-	-	-	-	-	-	-	-
10	Chemicals	63,590	-	63,590	-	-	-	-	-	63,590
11	Materials & Supplies	13,042	(1,747)	11,295	-	-	-	-	-	11,295
12	Cont. Ser. - Prof.	22,068	-	22,068	-	-	-	-	-	22,068
13	Cont. Ser. - Testing	11,655	-	11,655	-	-	-	-	-	11,655
14	Cont. Ser. - Other	599,919	(71,955)	527,964	-	-	-	-	-	527,964
15	Repair And Maint.	-	-	-	-	-	-	-	-	-
16	Rents	35,925	(22,000)	13,925	-	-	-	-	-	13,925
17	Transportation Exp.	6,293	-	6,293	-	-	-	-	-	6,293
18	Insurance	18,680	-	18,680	-	-	-	-	-	18,680
19	Reg. Comm. Exp.	40,000	-	40,000	-	-	(22,500)	-	-	17,500
20	Misc. Expense	75,936	(5,778)	70,158	-	-	-	(264)	-	69,894
21	Dep. Expense	917,428	(13,472)	903,956	(126,723)	-	-	-	-	777,233
22	Taxes Other Than Inc	-	-	-	-	-	-	-	-	-
23	Property Taxes	253,982	1,157	255,139	-	(79,784)	-	-	-	175,355
24	Income Tax	108,048	43,924	151,972	-	-	-	-	(81,921)	70,051
25	TOTAL OPR'G EXP.	\$ 2,324,502	\$ (69,871)	\$ 2,254,631	\$ (126,723)	\$ (79,784)	\$ (22,500)	\$ (264)	\$ (81,921)	\$ 1,943,440
26	OPR'G INC. (LOSS)	\$ 171,878		\$ 241,749						\$ 552,940

ADJUSTMENTS:

- 1 - Test-Year Dep. Expense
- 2 - Property Tax Computation
- 3 - Rate Case Expense
- 10 - Adjustment To Inappropriate Expenses
- 13 - Income Tax

REFERENCE:

- Testimony, RLM And SURR RLM-8
- Testimony, RLM And SURR RLM-9
- Testimony, RLM
- Testimony, RLM And SURR RLM-10
- Testimony, RLM And SURR RLM-13

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APR'D DEP. RATE	(C) TEST YEAR DEPRECIATION EXPENSE
1	351	Organization	\$ 25,000	0.00%	\$ -
2	352	Franchises	25,000	0.00%	-
3	353	Land and Land Rights	-	0.00%	-
4	354	Structures And Improvements	4,134,684	3.33%	137,685
5	355	Power Generation Equipment	-	5.00%	-
6	360	Collection Sewers - Force	77,544	2.00%	1,551
7	361	Collection Sewers - Gravity	1,564,855	2.00%	31,297
8	362	Special Collecting Structures	19,067	2.00%	381
9	363	Services To Customers	21,498	2.00%	430
10	364	Flow Measuring Devices	3,708	10.00%	371
11	365	Flow Measuring Installations	159,573	10.00%	15,957
12	370	Receiving Wells	-	3.33%	-
13	371	Pumping Equipment	66,132	12.50%	8,267
14	380	Treatment And Disposal Equipment	8,635,296	5.00%	431,765
15	381	Plant Sewers	945	5.00%	47
16	382	Outfall Sewer Lines	-	3.33%	-
17	389	Other Plant And Miscellaneous Equip.	3,408,092	6.67%	227,320
18	390	Office Furniture And Equipment	33,837	6.67%	2,257
19	391	Transportation Equipment	-	20.00%	-
20	393	Tools, Shop And Garage Equipment	-	5.00%	-
21	394	Laboratory Equipment	17,413	10.00%	1,741
22	395	Power Operated Equipment	-	5.00%	-
23	398	Other Tangible Plant	-	10.00%	-
24		RUCO Accepts Company Adj. No. 1	-	5.00%	-
25		RUCO Accepts Company Adj. No. 2	-		-
26		TOTAL WASTEWATER PLANT	<u>\$ 18,192,644</u>		<u>\$ 859,069</u>
27		Less: Amortizations Of CIAC	\$ (1,750,272)	4.68%	(81,835)
28		TOTAL DEPRECIATION EXPENSE (Line 21 + Line 22)			<u>\$ 777,233</u>
29		Test Year Depreciation Expense Per Company Rebuttal Testimony (Co. Sch. C-1)			903,956
30		Decrease Of Depreciation Expense (Line 23 - Line 24)			<u>\$ (126,723)</u>
31		RUCO Adjustment (Line 25) (See SURR RLM-6, Column (D), Line 21)			<u>\$ (126,723)</u>

References:

Column (A): SURR RLM-5, Column (C)
Column (B): Company Schedule C-2, Page 2
Column (C): Column (A) X Column (B)

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Year 2003 (Company Schedule E-6)	Co. Sch. E-2	\$ 2,034,111	
2	Year 2004 (Company Schedule E-6)	Co. Sch. E-2	2,251,095	
3	Year 2005 (Company Schedule E-6)	Co. Sch. E-2	2,440,694	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 6,725,900	
5	Average Annual Operating Revenues	Line 4 / 3	2,241,967	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 4,483,933
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1	\$ 7,690	
8	10% Of CWIP	Line 7 X 10%		\$ 769
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RLM-4, P 12, C (D), L 14	\$ -	
10	Acc. Dep. Of Transportation Equipment	RLM-4, P 12, C (E), L 14	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 4,484,702
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	24.0%	
14	Assessed Value	Line 12 X Line 13	\$ 1,076,329	
Property Tax Rates:				
15	Primary Tax Rate - 2005 Tax Notice	RUCO Data Req. 1.12	11.35%	
16	Secondary Tax Rate - 2005 Tax Notice	RUCO Data Req. 1.12	4.94%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	16.29%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 175,355
19	Test Year Adjusted Property Tax Expense	Co. Rebuttal Sch. C-1, Line 25		255,139
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ (79,784)
21	RUCO Adjustment (See SURR RLM-6, Column (C), Line 23)	Line 20		\$ (79,784)

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 10
REMOVAL OF UNNECESSARY/INAPPROPRIATE OPERATING EXPENSES

			(A)
LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
	Account No. 8200-2-0200-69-5150-0000 - Miscellaneous Expenses		
1	CT Corporation (Membership)	Test-Year General Ledger - Journal Entry 24725	\$ (229)
2	Gold Canyon Business Association (Membership)	Test-Year General Ledger - Journal Entry 25377	(35)
3	Gold Canyon Golf Resort (Grass Carp)	Test-Year General Ledger - Journal Entry 28747	-
4	RUCO Adjustment (See SURR RLM-6, Column (G), Line 20)	Sum Of Lines 1 Thru 3	<u>\$ (264)</u>
	Account No. 8200-2-0200-69-5200-0100 - Contract Services Other		
5	Mail Box Etc.	Test-Year General Ledger - Journal Entry 29119	\$ -
6	Sparkletts (12 Journal Entries) (Bottled Water)	Company's Response To Staff Data Request CSB 2.33	-
7	RUCO Adjustment (See SURR RLM-6, Column (G), Line 14)	Sum Of Lines 5 And 6	<u>\$ -</u>
8	RUCO Adjustment To Remove Unnecessary/Inappropriate Expens	Sum Of Lines 4 And 7	<u>\$ (264)</u>

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 13
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	SURR RLM-5, Column (C), L26 + L24	\$ 622,991
	LESS:		
2	Arizona State Tax	Line 11	(12,646)
3	Interest Expense	Note (A) Line 20	(441,506)
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 168,839
5	Federal Tax Rate	SURR RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 57,405</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 622,991
	LESS:		
8	Interest Expense	Note (A) Line 20	(441,506)
9	State Taxable Income	Line 7 - Line 8	<u>\$ 181,485</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 12,646</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 57,405
13	State Income Tax Expense	Line 11	12,646
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ 70,051</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		<u>151,972</u>
16	Total Income Tax Adjustmen	Line 14 - Line 15	<u>\$ (81,921)</u>
17	RUCO Adjustment (See SURR RLM-6, Column (J), L24)	Line 16	<u>\$ (81,921)</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (SURR RLM-2, Col. (E), L15)	\$ 13,062,308
19	Weighted Cost Of Debt (SURR RLM-12, Col. (F), L1)	3.38%
20	Interest Expense (L17 X L18)	<u>\$ 441,506</u>

**SURREBUTTAL
COST OF CAPITAL**

	(A)	(B)	(C)	(D)	(E)	(F)
LINE NO.	DESCRIPTION			CAPITAL RATIO	COST	WEIGHTED COST RATE
1	Long-Term Debt			40.00%	8.45%	3.38%
2	Stockholder's Equity			60.00%	9.04%	5.16%
3	TOTAL CAPITAL			100.00%		
4	COST OF CAPITAL					8.54%

References:

Column (C): Intentionally Left Blank
Column (B): Intentionally Left Blank
Column (A): Intentionally Left Blank
Column (D): Hypothetical Capital Structure
Column (E): Surrebuttal Testimony, WAR
Column (F): Column (D) X Column (E)

**SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) PRESENT RATES	(B) COMPANY PROPOSED	(C) RUCO PROPOSED	(D) RUCO PERCENTAGE INCREASE
MONTHLY FLAT RATE CHARGE					
CLASSES OF SERVICE					
1	Residential	\$ 35.00	\$ 70.34	\$ 48.05	37.29%
2	Residential (<700 SF) Per Dwelling	\$ 19.09	\$ 38.37	\$ 26.21	37.31%
3	Residential (HOA's)	\$ 31.82	\$ 63.95	\$ 43.69	37.29%
4	Commercial, Per ADEQ Bulletin 12	\$ 0.175	\$ 0.352	\$ 0.24	37.29%
5	Effluent Sales, Per 1,000 Gallons	\$ 0.391	\$ 0.786	\$ 0.54	37.39%

PROOF OF RECOMMENDED REVENUE

	DESCRIPTION	(A) AVERAGE GALLONAGE	(B) ANNUALIZED CUSTOMER LEVEL	(C) RUCO PROPOSED MONTHLY RATES	(D) RUCO PROPOSED REVENUE
FLAT RATE CHARGES					
6	Residential		5,016	\$ 48.05	\$ 2,892,307
7	Residential (<700 SF) Per Dwelling		259	\$ 26.21	81,466
8	Residential (HOA's)		202	\$ 43.69	105,895
9	Commercial, Per ADEQ Bulletin 12	40,458	25	\$ 0.240	244,627
10	Effluent Sales, Per 1,000 Gallons	2,382,750	3	\$ 0.537	\$ 43,519
11	TOTAL ANNUALIZED WASTEWATER REVENUE			Sum Of Lines 6 Thru 10	<u>\$ 3,367,815</u>
MISCELLANEOUS REVENUES					
12	Miscellaneous Revenues			Company Workpapers	44,804
13	Other Wastewater Revenues				-
14	TOTAL MISCELLANEOUS REVENUE			Line 12	<u>\$ 44,804</u>
15	TOTAL PROPOSED OPERATING REVENUE (See RLM-5, Col. (E), Line 4)			Sum Of Lines 11 & 12	<u><u>\$ 3,412,619</u></u>
16	Required Revenue			As Per SURR RLM-1, Page 1, Column (B), Line 10	<u>3,412,619</u>
17	Difference			Line 15 - Line 16	<u>\$ 0</u>